

**Nassau County Comptroller's
Audit Advisory Committee
2007 Annual Report**

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Background and Purpose:

The Nassau County Comptroller's Audit Advisory Committee was established by Comptroller Howard S. Weitzman in 2003 to garner outside advice and oversight for the county's financial and auditing operations. Comprised of financial experts, this seven-member committee is one of a handful that exists to assist counties in New York State. Five of the members are employed in the private sector and two are government officials from the county's Administration and Comptroller's Office.

The Committee assists in the monitoring of Nassau County's finances, its financial statements and the review of those financial statements by the County's outside auditors. In addition, the committee advises the Comptroller concerning audits performed by his office. (See Exhibit I for full mission statement.)

The Committee assists in monitoring the independent audit of the county's financial statements, from the selection of the independent auditor to providing advice on the resolution of audit findings. The Committee examines the appropriateness of the outside audit's scope, the preparation of the annual financial statements, the audit results and the assessment of the adequacy of internal controls by both the administration and the auditors. In addition, the Committee reviews and comments on the Comptroller's internal audit plan, audits prepared pursuant to that plan, agency responses, and county control directives and procedures. Additionally, when appropriate, the Committee periodically conducts special projects.

Committee Composition:

The Committee is composed of seven members:

- County Executive or designee
- County Comptroller or designee
- Five experienced county community/business/financial leaders selected by the Comptroller who are independent of the county and local governments. (One of these five is chosen to serve as committee chairperson).

Committee members in 2007 were:

H. Richard Grafer: A retired Partner and Managing Director of Arthur Andersen, LLP, he is the sole owner and Managing Member of Pathway Investments, LLC, a venture capital firm investing in companies with a social mission. Mr. Grafer retired from the Committee in December 2007.

Vivianne Hernandez: With over twenty-five years of professional experience in the financial services industry, Ms. Hernandez most recently was a partner with Strategic Value Partners LLC, a high yield and distressed debt global hedge fund management firm with over \$3.5 billion in assets under management. Ms. Hernandez joined the Committee on September 6, 2007.

Aline Khatchadourian: Nassau County's Deputy Comptroller for Audit and Special Projects (serving as designee of the County Comptroller).

Lee E. Launer: Retired partner of PriceWaterhouseCoopers LLP. Mr. Launer is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries and a Fellow of the Conference of Consulting Actuaries.

Ralph S. Polimeni: Vice Provost at Hofstra University, where he also holds the Chaykin Endowed Chair in Accounting. Mr. Polimeni, who served as the Chairman of the Committee, resigned from the Committee on June 26, 2007.

Terence E. Smolev: Partner in charge of tax, trusts and estates with the law firm of Forchelli, Curto, Schwartz, Mineo, Carlino & Cohn, LLP. Mr. Smolev is the Vice Chairman of the Committee.

Ana Sousa: Deputy Director of Management Initiatives, Nassau County Office of Management, Budget and Finance (serving as designee of the County Executive.)

Robert Andrew Wild: Chairman and Managing Partner of Garfunkel, Wild & Travis, P.C., a law firm specializing in healthcare. Mr. Wild served as acting Chairman of the Committee from June 26, 2007 through September 5, 2007. On September 6, 2007 Mr. Wild was appointed as the Chairman of the Committee.

The County Comptroller and a partner of Deloitte & Touche, the County's current outside audit firm, attend every Committee meeting. Service on the Committee is pro-bono. County officials serving on the Committee do not receive compensation in addition to their regular salaries.

Outside members of the Committee serve staggered terms so as to ensure continuity and stability.

The Year in Review:

During its fourth full year, the Committee examined county internal control policies and procedures, and monitored the administration's efforts to develop uniform departmental procedures and to identify and correct internal control weaknesses. The Committee reviewed the progress made addressing the county's financial position and budget, the status of tax certiorari payments, and the financial condition of the Nassau Health Care Corporation. The Committee actively evaluated the Comptroller's annual audit plan, reviewed the audit reports issued by the Comptroller's Office, and were regularly updated on the status of major audits in progress. The Committee members encouraged key county officials to cooperate with and assist the Comptroller's Office to ensure county department compliance with audit corrective action plans. The Committee also took the initiative to issue its own report reviewing the county's health benefits expense and identified savings opportunities.

The Sub-Committee on Financial Controls: Summary of Activities During 2007

The Sub-Committee was instrumental in organizing full committee meetings with county officials and in developing internal control follow-up questions for discussion and review. Individual members of the sub-committee were actively involved in the following areas:

1. Comptroller's Audit of the County Clerk's Office: The Sub-Committee advised the Comptroller's Office on the technical and professional aspects of this audit, which detected material weaknesses in the internal controls.
2. Agency Financial Controls Questionnaire: The Sub-Committee provided consultation in the development of this questionnaire, which contract agencies will be asked to complete so that the Comptroller's Office can develop a risk-based approach to its audits of such agencies.
3. County Internal Control Initiative: For the past two years the County Office of Compliance has been directing a County-wide effort to review and improve internal controls, including their documentation. The Office of Compliance (Marilyn Gottlieb, Deputy County Executive, and Tricia Ferrell, Director of Compliance) attended a full Committee meeting to update members on the progress made during the year.
4. Corrective Action Plans ("CAP"): The County has developed a CAP Control Listing, which will be used to monitor the execution of all CAPs by various County departments and agencies resulting from audit findings.
5. Audit Recommendations: The Sub-Committee provided the Comptroller's Office with recommendations for audits, including certain ideas related to sales tax compliance, which the Comptroller's Office has recently implemented.
6. Contract and Claims Approval Process: As a result of allegations that the contract and claims approval process had slowed this year, a sub-committee member met with representatives of the Comptroller's Office and HHS to discuss ideas for improving the process.

The Sub-Committee on the Nassau Health Care Corporation

The Sub-Committee met with Arthur Gianelli, President and CEO of Nassau Health Care Corporation (NHCC). In addition, the Sub-Committee provided updates on the NHCC's agreements with the county. A Report provided by Arthur Gianelli, President/CEO on the 2007 Finances and Operations of the Nassau Health Care Corporation is included in this report. (See Exhibit II)

Issues addressed by the Full Committee

County's Financial Position

The county's financial position has been an ongoing concern for the Committee. Comptroller Weitzman updated the Committee on the county's financial situation throughout the year. In March he reviewed the 2006 annual close, indicating that the county had missed its budgeted sales tax revenue target by approximately \$6 million. The \$45.4 million surplus was the smallest since 2002. The County Executive's freeze on non-essential hiring and purchasing added to the surplus. The Comptroller noted, however, that the surplus would have been \$20 million higher if not for an accrual required for the one-time accounting change in the reporting of tax certiorari refunds; this was required when the county moved from debt to the operating budget to pay for the refunds.

He also discussed the plans for 2007 and 2008; a very small surplus was forecasted for 2007 and 2008 will leave a \$140 million structural gap which will be difficult to close without New York State's support for a number of county revenue initiatives.

In November, the Committee reviewed the Comptroller's *Report on the County's Financial Condition for the First Six Months of Fiscal Year 2007*, issued on August 5, 2007. Comptroller Weitzman's review of revenues and expenses indicated that the county could achieve a small surplus (\$5 million) for its primary funds if the county was successful in controlling expenditures through year-end and if dedicated reserves (\$8 million) were used to fund police termination pay obligations.

Actual financial results for 2007 will not be determined until February 2008.

Multi-Year Financial Plan

In June, Elissa Iannicello, Deputy Director, Office of Management, Budget and Finance (OMB) provided an update on the county's multi-year financial plan:

- OMB updated its 2007 sales tax growth projection to 3.5%, which translated to \$5.1 million less in revenue than budgeted.
- \$30 million in labor concessions was planned for 2007, including \$5 million from the Sheriff Officers Association and \$18.9 million from the Police Benevolent Association.
- Revenues at risk included Parks fees and County Clerk revenues.

- The administration was exercising position and overtime control. There are approximately 300 vacant jobs and the County Executive's contingency plan calls for only 200 to be filled. Also, only essential items will be purchased.

Ms. Iannicello stated that for 2008, smart government initiatives and labor concessions, including those from the CSEA, could result in \$53 million in savings. In response to Comptroller Weitzman's question about whether the savings are achievable, Ms. Iannicello indicated that departmental consolidations could save as much as \$10 million, and that new hires would start at lower salaries. She claimed that there would be workers' compensation savings as a result of the use of a third party administrator; however, Comptroller Weitzman expressed his office's concern that the county is running over budget on workers' compensation.

The administration also presented possible "gap closers" for the 2008 budget, including a 3.9% property tax increase, use of remaining tobacco proceeds, and pension reserves. Other options being pursued – video lottery terminals, increased cigarette taxes and red light cameras – require approval by the state legislature. Comptroller Weitzman added that the county expects that the State would approve an increase in County Clerk filing fees in 2008.

Ms. Iannicello stressed that union contract negotiations will significantly impact the county's financial position. She also acknowledged that a property tax increase may be necessary in 2009. In November, Comptroller Weitzman discussed his report on the County's 2008 budget in the *Comptroller's Comments on the Proposed Nassau County 2008 Budget and Multi-Year Financial Plan*. Updating the report, the risks identified increased to \$56 million, because the county did not take advantage of a \$6 million revenue opportunity from property taxes on new construction.

External Audit and Management Letter

In March, Robert Rooney presented Deloitte & Touche's 2006 Audit Plan. He detailed Deloitte's risk-based audit plan. Deloitte has a multifaceted approach, including independence policies, to ensure it monitors the professional objectivity and independence of its services. Deloitte participates in peer and practice review processes through reviews of their audit work papers. Mr. Rooney noted that Nassau County went through this process two years ago, and there were no comments. He indicated that, as a firm director, he is subject to both peer and practice reviews.

Inna Reznik, audit manager, described the audit process noting that Deloitte's audit scope was designed to obtain reasonable assurance and address risks in order to render the audit reports in accordance with generally accepted auditing standards. Mr. Rooney reviews the audit work papers and his comments are sought throughout the audit process. Deloitte has a year-round involvement; auditors are physically present, at least once a week, at the county and/or its component units from November through September. Open communication with the county is emphasized, as Deloitte tries to avoid "surprises" regarding its audit findings.

Mr. Rooney noted that Deloitte would report a significant deficiency in computer security for 2006, particularly regarding the payroll system. One individual in the Department of Information Technology has a high level of computer access and responsibility due to an extensive knowledge of the payroll system; there is no backup or succession plan. This issue

was raised by Deloitte in 2004, and the administration responded that they would address the problem. The county's response to Deloitte's 2005 management letter was issued in early 2008.

Mr. Rooney stated that tax certioraris are paid through the operating budget and therefore all pending liabilities must be captured. When Deloitte's auditors reviewed the Office of the County Treasurer's processes to determine this, they noted that staff members had difficulty describing the process. Mr. Rooney noted that SAS 112 requires that employees understand the work they are performing; this problem will be reported in Deloitte's 2006 management letter.

In May, Mr. Rooney advised that, since the 2005 audit, there had been significant improvement in the financial statements received from the County Treasurer's Office for the Nassau County Sewer and Storm Water Finance Authority; however information on tobacco settlement proceeds were in a format that still needed work. He recommended that these records be entered into the Nassau Integrated Financial System (NIFS), the county's accounting system.

Deloitte's *Report to Management* (for the year ended December 31, 2005) was reviewed in June. Mr. Rooney noted that some new management comments, primarily related to Information Technology (IT), had been made and that recommendations for strengthening systems were included in the report; he expected similar comments for 2006. The report also contains comments regarding the Treasurer's administration of tobacco proceeds. Mr. Rooney indicated that there are no material weaknesses or reportable conditions. Mr. Rooney also explained that prior years' repeat problems in the area of financial administration, such as cash administration, have shown marked improvement and that the staff is better able to handle their work.

Mr. Rooney discussed the impact of Statement on Auditing Standards (SAS) 61. Because Deloitte is independent with respect to the county, he explained that it is their responsibility to express an opinion on the fairness of the presentation of the county's financial statements for the year ended December 31, 2006. He went on to state that there were no uncorrected misstatements or disclosure items in the financial statements.

Accounting Issues

SAS 112 requires that the auditor communicate any deficiencies noted during the audit and identify their materiality. Therefore, the management letter will discuss issues differently than in previous years.

In November, Arnold Taubman, an economist with OMB, presented a briefing on the county's other post-employment benefits (OPEB) liability pursuant to GASB 45. The Government Accounting Standards Board's (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefit Plans Other than Pensions*, requires that State and local governments that previously accounted for retiree health care costs on a "pay-as-you-go" basis, now must calculate the actuarial present value of these benefits. Mr. Taubman noted that the county had engaged an actuary, Mercer Health & Benefits, to quantify the benefit, but the actuary's numbers were still in draft. Highlights of the presentation were:

- The annual OPEB costs for the county will be based on the actuarially determined total liability for retirees. The present value of expected future benefit payments for Nassau County is \$4,015.1 billion and the actuarial accrued liability is \$3,320.6 billion. If the

County were to start paying into a trust to fund this expense on an annual basis, its “annual required contribution” in 2007 would be \$286.8 million. This includes the county’s projected benefit payments for 2007 of \$105 million for all retirees (including anticipated 2007 retirees) and a \$181.8 million payment into the trust. The annual required contribution amount is not currently reflected on the county’s books.

- The county must decide if the actuarial accrued liability is to be amortized over 30 years, or if the county should take it in “one shot.”
- In 2008, the balance sheet liability amount is estimated as \$363.5 million.

Interest Rate Risk

In November, Ms. Hernandez and Lee Launer agreed to evaluate the county’s interest rate risk. Their analysis will be presented to the committee upon completion in 2008.

Internal Audit

The Committee was periodically updated on the Comptroller’s Office audit operations, including the implementation of a paperless audit management system and the hiring of several experienced Certified Public Accountants to work on audits.

Audit Plan

The Committee monitored the progress of the Comptroller’s Office 2007 audit plan. The audit plan included the first phase of a three-year plan to review the county’s time and leave practices and processes for receiving and payment, including review and approval of claim vouchers. The plan also included audits of special districts and of non-profit agencies that have multiple contracts with the county. Comptroller personnel regularly provided status reports on audits in progress, and the committee members were given the opportunity to review completed audits and Corrective Action Plans (CAPs).

In March, Mr. Rooney commented on the Comptroller’s Office audit plan, and stated that all important areas were covered by the plan.

Corrective Action Plans

The Committee has been concerned about the county’s compliance with CAPs and, therefore, in September asked Deputy County Executive Stokes and committee member Ana Sousa to report on the status of the CAPs. Mr. Stokes explained that 602 items, identified by State and County Comptroller audits and Deloitte management reports, in need of corrective action were being tracked by the administration. Of the 602 items, 491 had been completed, 83 were in progress and 28 were delayed. Some items under review date back to 2002 and certain issues regarding staffing are still not resolved. Ms. Sousa explained that audit exceptions and recommendations not resolved by their target date are identified as “amber light” items, which must be addressed by the auditee. Ms. Sousa said that the verification process is still evolving but that the current system provides the County Executive with periodic scorecards. The Committee expressed concern that the Comptroller has no authority to enforce compliance with CAPs beyond the threat of a follow-up audit. It recommended that CAPs be certified by high-level county

administrators and it was agreed that delayed or amber light CAP findings should be discussed further.

Mr. Stokes also explained that the administration's audit protocol, developed in July of 2006, ensures that the department head, as well as senior staff and the Deputy County Executive overseeing a department under audit, are involved during the audit and in implementing the CAP. The department head is required to document the response to the draft audit report and strict, uniform procedures now ensure that detailed responses to the audit are made with target completion dates established

In November, Ms. Khatchadourian reported that the Comptroller's Office and the administration need to develop tighter direction to ensure compliance on audit CAPs. The Committee remained concerned that the Comptroller has no authority to require compliance with a CAP. They were informed that follow-up issues from audits are often referred to the County Attorney and District Attorney.

Audit of Nassau County Clerk's Office

The Comptroller's audit of the Nassau County Clerk's Office was very contentious and therefore the Committee was regularly advised on the various issues that were raised in the audit. The audit report was issued on March 20, 2007. In light of this audit's findings, Comptroller Weitzman asked New York State Comptroller DiNapoli to consider comprehensive audits of other county clerk offices in New York State. He also directed the County Clerk to start using the Nassau Integrated Financial System (NIFS). In April, Comptroller Weitzman contacted New York State Attorney General Andrew Cuomo to confirm the County Comptroller's authority to direct the Clerk's Office to use NIFS.

On April 17, 2007 Comptroller Weitzman testified before the County Legislature's Government Services and Operations Committee regarding the audit of the County Clerk's Office. The County Clerk also appeared before the Committee. Mr. Weitzman advised that Legislator Diane Yatauro, Chairwoman of the Government Services and Operations Committee, would be contacting the County Clerk to find out what the Clerk's Office will do in response to the audit findings. Mr. Weitzman advised that the Comptroller's Office will follow-up on this issue.

Comptroller Weitzman noted that at the legislative hearing there was discussion of an additional outside audit of the County Clerk's Office and that the county's administration supports a forensic audit. The correspondence between Comptroller Weitzman and Chairwoman Yatauro regarding a forensic audit of the Clerk's Office was provided.

Deputy Comptroller Ghisone and Comptroller's staff worked with the County Clerk's office throughout the year to help the Clerk put her financial records in NIFS. Mr. Ghisone reported that the Clerk had begun taking initial steps to effect the NIFS implementation.

Living Wage Compliance

The Committee was advised that the Comptroller's Office had established a Living Wage Unit to conduct audits of employers subject to the living wage law. The Committee discussed ways to ensure compliance. Comptroller Weitzman also advised that he would be establishing a

volunteer Living Wage Advisory Committee, and John Durso, President of the Long Island Federation of Labor, agreed to serve as chairman.

Agency Representation Letters/Agency Financial Control Questionnaires

The Comptroller's Office determined that it was necessary for agencies that contract with the county to answer questionnaires about financial controls. The Committee was actively involved in reviewing and commenting on the *Agency Financial Control Questionnaire* before it was introduced to the agencies in June.

The questionnaire requires agencies to provide information about their fraud detection and reporting mechanisms, policies, procedures, code of ethics, related third party transactions, compliance with OMB Circular A-133, segregation of duties and internal controls, copies of latest audit reports, management letters. The questionnaires will be signed by agency CEO's, CFO's and Board Chairpersons. The agencies were asked to fill out the questionnaires on a voluntary basis but in 2009 this will become mandatory.

Health Benefits

In late 2006, Committee member Lee Launer had volunteered to perform a county health care costs analysis on behalf of the committee. The \$225 million annual cost of health benefits for county employees and retirees comprise 8% of the county's overall budget. On July 19, 2007 the Committee issued the report: *Providing Affordable Health Benefits for County Employees and Retirees: Some Suggested Solutions*. The report analyzed the skyrocketing health costs for county employees and made recommendations for ways the county can reduce those costs. Following are some of the key points made in the report:

- Increasing health benefit costs for county employees and retirees strain the county's budget. In recent years, health care costs have increased between 7% and 10% annually. The county's health benefit expense in 2007 is projected at \$251 million, while total health care costs, including health benefits for active and retired employees, workers' compensation, sick time, and other benefits, are estimated at \$313 million for 2007.
- Health cost savings options that the county could consider include:
 1. requiring contributions from participants for a portion of their health insurance premiums. If the county requires that employees and retirees make the same contributions required by New York State (i.e. 10% of the cost for individual coverage and 25% of the cost for family coverage), the county could save approximately \$129 million from 2008 to 2010.
 2. changing the benefits plan from the current New York State Health Insurance Program Empire Plan's Core Plus Enhancements coverage to the basic benefits package and allow participants to pay a premium to enroll in the Core Plus plan. This change could save the county about \$90 million from 2008 to 2010.
 3. increasing the level of reimbursement in the county's health insurance buy back program, which allows employees an annual reimbursement in

exchange for giving up their health benefit coverage if they are covered elsewhere. The current rates of \$500 for single and \$2,000 for family coverage were established in the mid 1980's.

4. establishing a wellness program for employees and retirees that would educate participants on health, nutrition and exercise; this would allow them to take more control over their health and reduce health related costs.
5. offering retiree life-time health benefits only after a minimum of ten years of employment. Currently, this requirement only applies to new Civil Service Employee Association (CSEA) employees. If extended to other unions and the county's non-union employees, the county could save approximately \$567,000 in 2008 through 2010.
6. providing retiree health benefits only after the retiree begins to draw on his or her pension. Currently, eligible employees who leave county employment may receive retiree health care coverage at age 55, whether or not they begin to draw down a pension at that time.

In June Comptroller Weitzman reported that the county is working with the New York State Health Insurance Plan (NYSHIP) in an effort to save on health benefit costs, and that the state was considering an independent review of NYSHIP, which he had advocated. The administration was also looking into alternatives to NYSHIP.

Tax Certiorari Claims

In September Deputy County Executive Stokes provided the Committee with an update on the status of county tax certiorari payments. He reported that 2007 tax certiorari expenditures are expected to be a few million dollars over budget, noting that \$31 million had been paid to-date, and he expected additional payouts of approximately \$23 million before the end of the year. He indicated that if the \$50 million tax certiorari budget is exceeded, the county's ability to borrow is limited to 1% of the budget in 2007.

In November the Committee discussed the possibility that tax certiorari payments could exceed the 2008 budget by approximately \$20 million, the same amount at risk in 2007. Deputy Comptroller Botwin also advised the Committee on the potential need for the county to borrow to fund 2007 tax certiorari payments. In December Nassau County sold \$75 million in long-term bonds, a portion of which would be used to pay the costs of property tax refunds. NIFA advised the county's administration that it opposes the issuance of bonds to pay for certiorari claims.

State Sales Taxes

In November Comptroller Weitzman provided an update on the county's 2008 budget and multi-year financial plan, noting that sales taxes remain the county's number one area of concern and are not within the county's control. The county's 2007 budget projected a 3.9% increase in sales tax revenues; however, as actual sales tax revenues over the year declined, the projection was modified downward to 3.0% and then 2.1%. Sales tax receipts are currently at 1.1%; every 1% decline of sales tax revenues represents \$10 million of lost revenues to the county.

Office of Management, Budget and Finance

In September Deputy County Executive for Management, Budget and Finance Thomas W. Stokes provided the committee with details on the recent restructuring of the Office of Management, Budget and Finance.

Mr. Stokes also discussed the status of workers' compensation and 207C (the equivalent of workers' compensation for uniformed officers). The county is accelerating the review process when an employee goes on workers' compensation and has established on-site clinics to monitor employees through treatment and recovery. An audit report on Triad, the third party administrator of the county's workers' compensation program, was also issued in September. Mr. Weitzman welcomed input from Committee members interested in providing advice on monitoring the workers' compensation program.

Office of Compliance Initiatives

In November Deputy County Executive Gottlieb and Compliance Officer Ferrell provided an update on the county's internal control initiatives coordinated by the Office of Compliance.

In response to the Committee and the Comptroller's concerns about the use of bank accounts that are not recorded in the Nassau Integrated Financial System (NIFS), they described why these accounts are sometimes necessary, and how the Office of Compliance was working with those departments to make sure that the necessary controls were in place. In particular, Ms. Ferrell cited that police department investigations sometimes require the use of credit cards and dummy accounts that would not be traceable back to the individual employee or the county.

The Office of Compliance also intended to address the needs of certain county departments by raising the individual petty cash transaction dollar limit and closing unused petty cash accounts. The Committee was invited to review the office's analysis of the county's petty cash boxes.

The Office of Compliance is also working with the Department of Information Technology to develop a data center policy covering the county's Intranet. It is also working with the Comptroller's Office and Purchasing to establish procurement policies and procedures, and on updating contract advisements and purchase orders. These projects are expected to be finalized and issued in 2008. The Office of Compliance has also been working with the County Attorney and Human Resources on ethics training manuals and courses reflecting the revisions to the county's code of ethics passed by the County Legislature this year. Training will begin in early 2008.

In response to Comptroller Weitzman's inquiry about the possibility of contracting with travel service providers, Ms. Ferrell agreed to consider some of the obstacles that were being encountered by county employees when it came to travel and stated that the Office of Compliance would offer guidance in implementing travel procedures. She also noted that the county updated meal allowance rates in response to a Public Employment Relations Board decision raising the rates.

Ms. Gottlieb reported that improved internal controls at Parks have been instituted for vaults, gift certificates, and revenues. Disciplinary procedures are in place for employees who fail to comply with required procedures. A Senior Compliance Officer has been working at Parks to train and assist staff.

An RSM McGladrey “Level II” analysis at the county’s Traffic and Parking Violations Agency (TPVA) and the Assessment Review Commission (ARC) indicated that both agencies need new equipment and IT. TPVA issued a request for information (RFI) followed by a request for proposal (RFP) for updated IT. Law enforcement and ticket revenues falling short of budget are key issues at the agency. The Office of Compliance is working with RSM McGladrey on internal control policies that cover residential and commercial property reviews. McGladrey’s analysis indicated that ARC currently lacks the appropriate technology to efficiently conduct assessment reviews.

Ms. Gottlieb advocated for cooperation between the Office of Compliance and the Comptroller’s Office. The Comptroller’s audit reports are useful in assisting with compliance planning as they look for patterns cited in the audits.

Special Districts/New York State Commission on Local Government Efficiency and Competitiveness/Other Community Initiatives

Comptroller Weitzman advised the Committee that in April he and Senator Craig Johnson had been asked by the governor to serve on the New York State Commission on Local Government Efficiency and Competitiveness. The panel is charged with developing plans to streamline local governments, with a focus on ending continual property tax increases. The 15 member commission will review the many local governments and special districts in New York State and recommend ways to eliminate, merge, or consolidate some of these districts, while maintaining and improving services.

Important special district issues include eliminating compensation for commissioners and also having towns take over solid waste collection which, in the Town of Hempstead, could result in taxpayer savings of \$150-\$200 per home.

Conclusion:

The Committee is advised of major financial issues facing the county, and the administration continues to provide the committee with access to county employees and financial information. During the upcoming year, the Committee intends to follow-up on issues already reviewed, as well as monitor new matters that may occur. In particular, the Committee stresses the importance of implementing strong internal controls throughout the county, especially at the departmental level, and committee members will continue to provide oversight and advice as the county’s initiative to improve internal controls proceeds.

EXHIBIT I

Mission Statement Nassau County Comptroller's Audit Advisory Committee

The Nassau County Comptroller's Audit Advisory Committee was established to answer the call to assist in the monitoring of Nassau County's financial integrity. Its mission is to assist in the monitoring of the independent audit of the county's financial statements from the selection of the independent auditor to the resolution of audit findings. Specifically, the Committee will assist in monitoring the following: selection of the outside, independent auditors; the appropriateness of the scope of the outside audit; the preparation of the annual financial statements; the results of the audit; and the assessment of the adequacy of internal controls by both the administration and the auditors. The Committee will have a similar responsibility to assist in monitoring the establishment of the internal audit plan and reviewing the results thereof. Periodically, it will participate in special projects; review special district audits filed annually with the Comptroller; and review audits of county agencies prepared by the Comptroller, agency responses to those reports, and county control directives and procedures. This Committee will review the process that exists for providing that the county's financial statements and audits are in compliance with the pronouncements of the Government Auditing Standards Board (GASB). It is committed to upholding continued excellence in Nassau County Government.

EXHIBIT II

Report on the 2007 Finances and Operations of the Nassau Health Care Corporation Provided by Arthur Gianelli, President/CEO

Introduction

The Nassau Health Care Corporation (“Corporation” or “NHCC”) is a public benefit corporation created in 1999 under the laws of the State of New York. It consists of the Nassau University Medical Center (“NUMC”), the A. Holly Patterson Extended Care Facility (“AHP”), six community health centers (“CHC”) and one school based clinic. The Corporation has a consolidated operating budget of approximately \$500 million and has a workforce consisting of about 3,400 full-time equivalent employees. The Corporation is a component unit of the government of Nassau County.

Projected 2007 Financial and Operational Results

The Nassau Health Care Corporation projects that, on a consolidated basis, it will lose approximately \$4.9 million from basic operations in 2007. This projected loss includes the benefit of \$4.4 million in interest earnings. Additionally, there were non-cash operating expenses that will adversely impact the financial position of the Corporation. The amortized loss from the 2004 refunding and the change in value of the Corporation’s derivative instruments negatively impacted the Corporation’s bottom line by approximately \$9.3 million.

In 2007, though, there are two additional items that will materially impact the financial statements of the Corporation. First, the Corporation will likely include in its financial statements a benefit of approximately \$20 million in Medicaid Hospital Disproportionate Share (“DSH”) payments that were restricted by agreement with Nassau County for capital purposes. The accounting treatment of the DSH payments has not been finalized, so the true change in net income, and therefore to net assets, will not be clear until the audit is completed in June. And second, under Government Accounting Standards Rule Number 45 (“GASB 45”), the Corporation will be required to recognize a liability for its share of other post-employment benefits (“OPEB”). Preliminarily, actuarial consultants retained jointly by the Corporation and the County estimate that the OPEB liability for all employees of the Corporation is \$511 million, with approximately \$240 million of this liability being the Corporation’s share. The Corporation will need to make a determination about whether to recognize its share of this liability all at once or amortize it over the course of 30 years. Here too, the exact impact of the recognition of the Corporation’s OPEB liability on its 2007 income statement and statement of net assets will be determined when the audit is completed.

There are a number of points to note regarding the financial and operational performance of the Corporation in 2007:

NUMC:

- Discharges grew from 22,500 to 23,175, which represented an increase in discharges of 3%. However, almost all of this increase in discharges came from the addition of new psychiatric beds (see below). Adult and pediatric discharges declined in aggregate, but this decline was driven by a sizeable reduction in pediatric discharges and a loss of detoxification volume, on a temporary basis, due to a problem with the licensure of the unit to administer methadone. After a long process, the Corporation secured the necessary licensure to administer methadone in February of 2008, and NHCC anticipates that its detoxification census should revert to historic levels. These losses were not offset entirely by an increase in adult discharges. Discharges from the Physical Medicine and Rehabilitation service increased from 535 to 602, a growth in discharges of over 12%. This growth is attributable to a voluntary physician group that now admits to NUMC.
- Length of stay for adult and pediatric admissions dropped from 4.53 to 4.33.
- The overall average daily census increased from 348.5 to 365, but this increase in average daily census is attributable to the opening of new psychiatric beds (see below).
- The Medicare and Medicaid case mix index (“CMI”) increased, while NUMC’s overall CMI declined due to a drop in the CMI all other categories of payors.
- Emergency department visits increased 0.8% from 73,774 to 74,331 visits.
- Full-time equivalent (“FTE”) hires increased 3.2% from 2,666 to 2,752, due almost exclusively to the staffing requirements of the new psychiatric units (see below), while FTEs per adjusted occupied bed dropped from 5.51 to 5.30.
- Bad debt as a percentage of net patient revenue dropped from 14.22% to 12.70%.

AHP:

- AHP lost only \$1.5 million in 2007 from general operations, including investment earnings. This does not including losses from its non-cash operations, including the loss from the 2004 refunding and the change in the value of the derivative instruments allocated to AHP. Most of these losses occurred during the first half of the fiscal year; for the remainder of the year, AHP essentially broke even. This represents a significant turnaround from two years ago, when AHP lost approximately \$7 million. This turnaround occurred in spite of State budget cuts and is due to the Corporation’s successful implementation of a number of initiatives, including: surrendering 300 unused beds to the New York State

Department of Health in order to secure bedhold reimbursement; obtaining hospital based status; improving the case mix; increasing the census; and controlling costs.

- AHP's major key operating indicators improved in 2007: total patient days increased, including patient days for ventilator residents; the average daily census increased from 568 to 571; FTEs per adjusted occupied bed dropped from 1.06 to 1.05; admissions to NUMC increased from 422 to 536; and admissions from other facilities grew from 111 to 131.

CHCs:

- The CHCs lost \$1.4 million in 2007 due to State-imposed cuts in the amount of Bad Debt and Charity Care funding that will be available to publicly sponsored diagnostic and treatment centers.
- Visits to the CHCs increased approximately 5.7% from 65,415 to 69,128.
- The bad debt percentage at the CHCs increased from 27.03% to 31.45%.
- Admissions to NUMC increased slightly from 1,212 to 1,223.

Finally, it is important to note that the Corporation's year-end cash position appeared to deteriorate in 2007 from a 2006 year-end unrestricted cash balance of \$22.8 million to \$7 million in unrestricted cash at the end of 2007. However, this adverse change in the Corporation's cash balance is attributable to several factors:

- The Corporation's relatively modest operating loss in 2007;
- Delays at the State level in providing reimbursement for the new Chemical Dependency unit;
- The unwillingness of the federal government to approve the State's Medicaid Plan amendments (which impacts the Corporation's increased emergency department reimbursement rate and the Long Island pool funds, both of which were authorized in the 2007/2008 State budget);
- The increase in cash used to fund capital improvements in anticipation of drawing down corresponding tobacco securitization proceeds from the County; and
- The year-long delay in the approval of the Successor Agreement, which precluded the County from transferring certain of the tobacco securitization proceeds as well as paying, in a timely fashion, its public health subsidy and the administrative premium on prison health payments.

In order to manage possible future cash flow difficulties, the Corporation obtained the ability in its Successor Agreement (see below) with the County to pledge its Medicaid and Medicare accounts receivable to obtain up to a \$30 million line of credit.

Quality of Care

NHCC successfully achieved full accreditation from the Joint Commission through 2009. In 2006, the Joint Commission had conditionally accredited NHCC, identifying 18 requirements for improvement that needed correction. All 18 of these requirements were satisfied in the re-survey conducted by the Joint Commission in April of 2007.

NUMC completed its clinical chair recruitment effort, hiring its eighth new chair in a two year period. Additionally, corporate-wide quality improvement and patient satisfaction goals were established, and progress was made on most of these measures.

Grant Funds and Philanthropy

NHCC was very successful in 2007 in obtaining important grants, earmarks, and initiating a philanthropic program. NHCC was awarded \$37 million in grant funds from the State of New York through Phase 4 of the HEAL-NY program. The Corporation can use \$34 million of these funds to retire outstanding debt; \$3 million must be used to reimburse the Corporation for construction costs associated with the pouring of the three unpoured floors at NUMC. Additionally, the Corporation was successful in obtaining approximately \$600,000 in earmarked funds from the federal government, the largest earmark award granted to a hospital or health system on Long Island in 2007. These funds will be used to promote outreach at the Corporation's Institute for Healthcare Disparities as well as initiate a chemical dependency program for first responders to the World Trade Center disaster. Last, NHCC commenced a philanthropic program which will ultimately be coordinated through the Long Island Medical Foundation, the Corporation's reconstituted philanthropic arm. In 2007, the Corporation attracted over \$800,000 in philanthropic donations.

Successor Agreement

The Corporation and the County spent much of 2007 negotiating a Successor Agreement. Generally speaking, this agreement supersedes the prior contracts between the parties. It holds the subsidy for the Corporation constant, gradually eliminates an administrative premium on prison health payments, releases liens on 34 acres of the Corporation's property as well as from its Medicaid and Medicare accounts receivable, includes pre-approved purposes for the sale of Corporation land, and provides a vehicle for transferring over \$110 million of tobacco securitization proceeds. The Successor Agreement was executed in January of 2008.

Capital Improvements

NHCC undertook the construction of two new psychiatric units in 2007: a 30 bed chemical dependency unit and a 35 bed adult psychiatric floor. When combined with the opening of a 13 bed adolescent psychiatric floor that occurred in 2006, the Corporation added 78 beds to its psychiatric service which should contribute about \$5 million annually to its bottom line. Additionally, the Corporation put forward a major modernization program in late 2006 that was refined through the course of 2007. NHCC engaged a firm to conduct a comprehensive master plan for the dynamic care building, the main tower on the NUMC campus. The construction priorities in the master plan, which was finalized in early 2008, include a new emergency department, new intensive care units on one of the shell floors, two new health centers in Freeport / Roosevelt and Hempstead, a community imaging center, an eye center, labor-delivery-recovery rooms on the maternity floor, a cosmetically improved Physical Medicine and Rehabilitation floor, important information technology improvements, and medical equipment purchases. The funds for these capital improvements and purchases will come from HEAL-NY grants, prior borrowings, County tobacco funds, and the Corporation's funded depreciation.

Strategic Plan

NHCC has published and elaborated upon a complex strategic plan to stabilize its finances, re-engineer its processes, improve its quality, modernize its facilities, leverage its real estate holdings, enhance its community outreach and outpatient services, develop programs to address disparities in the delivery of health care, improve its philanthropy, and reposition the Corporation in the health care marketplace on Long Island and in the State. To achieve these strategic objectives, the Corporation will be pursuing the following strategies in the coming years:

Strategic Objective	Strategies
Stabilize Finances	<ul style="list-style-type: none"> • Secure group-price average or its equivalent • Preserve financial position during State and Federal budget processes • Achieve Medicare DSH appeals • Attract / seed voluntary physicians • Grow ambulatory and referral network • Grow Medicare market share • Improve surgical volumes • Implement business strategies developed for each clinical service • Implement chair report cards with volume targets • Enhance incentives for staff physicians • Negotiate CBA that is consistent with the industry and with naturally recurring revenue growth
Re-engineer Processes	<ul style="list-style-type: none"> • Empower Business Process Redesign teams • Focus on admissions / discharge processes, operating room processes, and ambulatory care processes • Engage consultant to assist redesign, build capacity among staff
Improve Quality	<ul style="list-style-type: none"> • Implement management report cards with targets for quality and patient satisfaction • Prepare for Joint Commission survey which could occur as early as October of 2008 • Adopt ambulatory care quality improvement goals • Partner with the Krasnoff Institute at North Shore – LIJ. • Restructure the residency program
Modernize Facilities	<ul style="list-style-type: none"> • Adopt master plan • Adopt capital plan • Commence construction of new emergency department • Commence build-out of Roosevelt community health center • Commence construction of new eye center and cosmetic improvements to Physical Medicine and Rehabilitation floor • Put together financing and commence construction of replacement A. Holly Paterson Extended Care Facility • Complete construction of new Burn Center • Complete construction of new Center for Hypertension, Diabetes and Vascular Disease • Complete new Dialysis Center
Leverage Real Estate	<ul style="list-style-type: none"> • Complete land use plans for Uniondale and East Meadow campuses • Issue RFP for sale of Uniondale property for assisted living, congregate living, senior housing, supportive commercial development, a community center, and an athletic field • Execute leases in Hempstead for new community health center and community imaging center • Negotiate build-out or purchase of Roosevelt health center site • Negotiate development of Medicaid Assisted Living Facility • Negotiate involvement in development of former Hempstead

	General site
Enhance Outreach / Outpatient Services	<ul style="list-style-type: none"> • Forge relationships with not-for-profit community • Develop Center for Healthy Aging • Create Department of Community Medicine • Assign dedicated physicians to ambulatory sites • Introduce incentives for primary care providers on staff • Commence transition for FQHC model • Introduce 340 B outpatient pharmacy at NUMC
Address Disparities	<ul style="list-style-type: none"> • Activate Institute for Health Care Disparities • Activate Center for Hypertension, Diabetes, and Vascular Disease • Implement NuCare proposal to address access for the uninsured • Implement community disparities initiatives in diabetes and hypertension
Improve Philanthropy	<ul style="list-style-type: none"> • Activate the Long Island Medical Foundation • Run gala, golf outing, and other fund raisers • Attract larger donors • Target gross contributions of \$1.5 million
Reposition in Marketplace	<ul style="list-style-type: none"> • Hire a marketing firm to rebrand Corporation • Implement e-mail notification initiative • Design advertising campaign • Identify Corporation with major public policy initiatives regarding the uninsured, health care disparities, NORCs, and medical homes

Conclusion

The Corporation made considerable progress during the last year. Its budgetary losses were lower than in any year since its creation, and AHP appears to be stabilized. The County and the Corporation have executed a Successor Agreement after considerable negotiations back and forth. NHCC has successfully attracted sizeable sums of money to modernize its facilities. And it has an ambitious strategic plan to stabilize its financial health in the future. However, as the discussion above indicates, the Corporation's strategic agenda is complex, with a number of moving parts. Execution management will be key. Of paramount importance, though, the Corporation will need to attract a cadre of voluntary physicians to admit to NUMC, reinvigorate its ambulatory network and feeder system, and, at the same time, negotiate with its union a contract that is substantially more aligned with the normal growth in its revenue base.